

Message Text

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ACTION EUR-12

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INFO ALL EC CAPITALS 1684

AMEMBASSY BERN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

C O N F I D E N T I A L EC BRUSSELS 01552

NOFORN

E.O. 11652: GDS

TAGS: SAS, EFIN, EEC

SUBJECT: EUROPEAN MONETARY SNAKE--FINANCE MINISTERS AGREE ON
MAINTAIN CURRENT EXCHANGE RATES

REF: PARIS 04624 (NOTAL)

1. SUMMARY: EC SNAKE MINISTERS REAFFIRMED THEIR INTENTION
TO MAINTAIN CURRENT EXCHANGE RATES. THE MINISTERS BELIEVE
THAT IT WOULD UNDERCUT CONFIDENCE IN THE NEW MONETARY SYSTEM
TO CHANGE RATES JUST AFTER THE RAMBOUILLET AND JAMAICA
MEETINGS. FRB INTERVENTIONS WERE FAVORABLY NOTED. RECENT
FRENCH DOLLAR INTERVENTIONS WERE CRITICIZED, HOWEVER. THE
MINISTERS WERE CONFIDENT THAT THEY WILL BE ABLE TO MAINTAIN
EXISTING RATES AND THERE WAS NO DISCUSSION OF A POSSIBLE
CHANGE OF PARITIES. END SUMMARY.

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2. HOLD EXISTING RATES: FRG FINANCE MINISTER ABEL

AND FRENCH FINANCE MINISTER FOURCADE REPORTED ON THE RESULTS OF THE RECENT FRANCO-GERMAN SUMMIT (SEE REF-TEL). THEY REPORTED TO A FEBRUARY 16 MEETING IN BRUSSELS OF FINANCE MINISTERS AND CENTRAL BANK GOVERNORS OF EC MEMBER STATES WHICH BELONG TO THE SNAKE. ABEL SAID A GREAT DEAL WAS AT STAKE IN HOLDING THE EXISTING RATES OF EC CURRENCIES. A CHANGE OF RATES JUST AFTER THE NEW ARRANGEMENTS WHICH WERE WORKED OUT IN RAMBOUILLET AND JAMAICA WOULD UNDERCUT CONFIDENCE IN THE NEW MONETARY SYSTEM. THE SNAKE'S CREDIBILITY WAS ALSO IN JEOPARDY. THE FRG CONSEQUENTLY HAS DECIDED IT CANNOT REVALUE AT THIS TIME. FOURCADE CITED POLITICAL AND ECONOMIC REASONS FOR NOT DEVALUING THE FF. BOTH MINISTERS SAID THEIR GOVERNMENTS WERE DETERMINED TO TAKE THE NECESSARY MEASURES TO MAINTAIN THEIR CURRENT EXCHANGE RATE LEVELS.

3. FRENCH VIEWS: FOURCADE ADDED THAT THERE WAS NO REASON TO DEVALUE THE FF. FRENCH EXCHANGE RESERVES ARE LARGER NOW THAN WHEN FRANCE REJOINED THE SNAKE LAST JUNE. PERHAPS THE PROJECTED DETERIORATION IN THE FRENCH BALANCE OF PAYMENTS HAD BEEN OVER-EMPHASIZED. FOURCADE PLANS TO ANNOUNCE THAT JANUARY'S TRADE BALANCE INDICATES THAT FRENCH EXPORTS WILL COVER 99 PERCENT OF THE ESTIMATED COST OF ITS IMPORTS THIS YEAR.

4. INTEREST RATE POLICIES: ABEL UNDERLINED THE NEED FOR SNAKE MEMBERS TO FOLLOW APPROPRIATE INTEREST RATE POLICIES. COUNTRIES WITH RELATIVELY STRONG CURRENCIES SHOULD KEEP THEIR INTEREST RATES DOWN WHILE WEAK CURRENCY COUNTRIES SHOULD KEEP THEIRS UP. FRG AND DUTCH AUTHORITIES CITED RECENT MEASURES TO LOWER THEIR INTEREST RATES AND BELGIAN OFFICIALS NOTED THAT THEY HAD TAKEN STEPS TO RAISE RATES.

5. CENTRAL BANK REPORT; THE CENTRAL BANK GOVERNORS COMMITTEE REPORTED THAT TOTAL EXCHANGE MARKET INTERVENTIONS BY SNAKE MEMBERS AMOUNTED TO ABOUT \$2.3 BILLION DURING THE FIRST TWO WEEKS IN FEBRUARY.

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SLIGHTLY OVER HALF OF THIS WAS IN DOLLARS AND THE REMAINDER IN EC CURRENCIES. FRANCE CONTINUES TO PURSUE A POLICY OF INTERVENING BEFORE THE FF REACHES THE SNAKE MARGINS. FRENCH FINANCE MINISTER FOURCADE WAS QUESTIONED WHY FRANCE INTERVENES IN DOLLARS AT TIMES WHEN THE FF IS DEPRECIATING AGAINST THE DOLLAR AND THE FRG IS BUYING DOLLARS TO KEEP THE DM FROM APPRECIATING AGAINST THE DOLLAR. SUCH INTERVENTIONS IMPEDE

THE COHESIVENESS OF THE SNAKE. FOURCADE REPLIED THAT SINCE THE DOLLAR IS AN "INTERNATIONAL UNIT OF ACCOUNT" IT IS APPROPRIATE TO USE IT AS AN INTERVENTION CURRENCY.

6. FRB INTERVENTIONS: THE GOVERNORS NOTED THAT THE FRG HAD INTERVENED MODESTLY IN THE MARKET TO HELP STABILIZE THE MARKET. THE AMOUNT OF THESE INTERVENTIONS WAS CONSIDERED APPROPRIATE BECAUSE THE DOLLAR WAS NOT UNDER STRONG PRESSURE DURING THIS TWO WEEK PERIOD. FOURCADE CITED THESE INTERVENTIONS AS AN INDICATION THAT THE RAMBOUILLET ARRANGEMENTS WERE WORKING. HE ADDED THAT THE DOLLAR MAY BECOME WEAK ONE OR MORE TIMES THIS YEAR AND THE SNAKE COUNTRIES SHOULD BE READY TO RECIPROcate BY SUPPORTING THE DOLLAR. THE DOLLAR SHOULD BE HELD AT ABOUT ITS CURRENT LEVEL, ACCORDING TO FOURCADE, IN ORDER TO FACILITATE EC EXPORTS.

7. PUBLIC IMPACT: DUTCH FINANCE MINISTER DUISENBERG, WHO CHAIRED THE MEETING, PROPOSED KEEPING THE MEETING AS SHORT AS POSSIBLE IN ORDER TO GIVE THE IMPRESSION THAT THE MINISTERS WERE NOT OVERLY CONCERNED WITH THE SITUATION. IT LASTED LESS THAN AN HOUR. IN THEIR PRESS RELEASE, THE MINISTERS REAFFIRMED THEIR CONFIDENCE IN THE SNAKE AND THEIR DETERMINATION TO DEFEND CURRENT EXCHANGE RATE LEVELS.

8. SWEDEN AND NORWAY AS ASSOCIATED MEMBERS OF THE SNAKE WERE NOT INVITED TO THIS MEETING. SWEDISH PERIODICAL SOURCES HERE SAY THAT THEY EXPECT TO BE INVITED TO THE NEXT SCHEDULED SNAKE MINISTERIAL LEVEL MEETING WHICH WILL BE ON MARCH 15 IN BRUSSELS. HINTON
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